Territoriality and geo-blocking

Economic issues

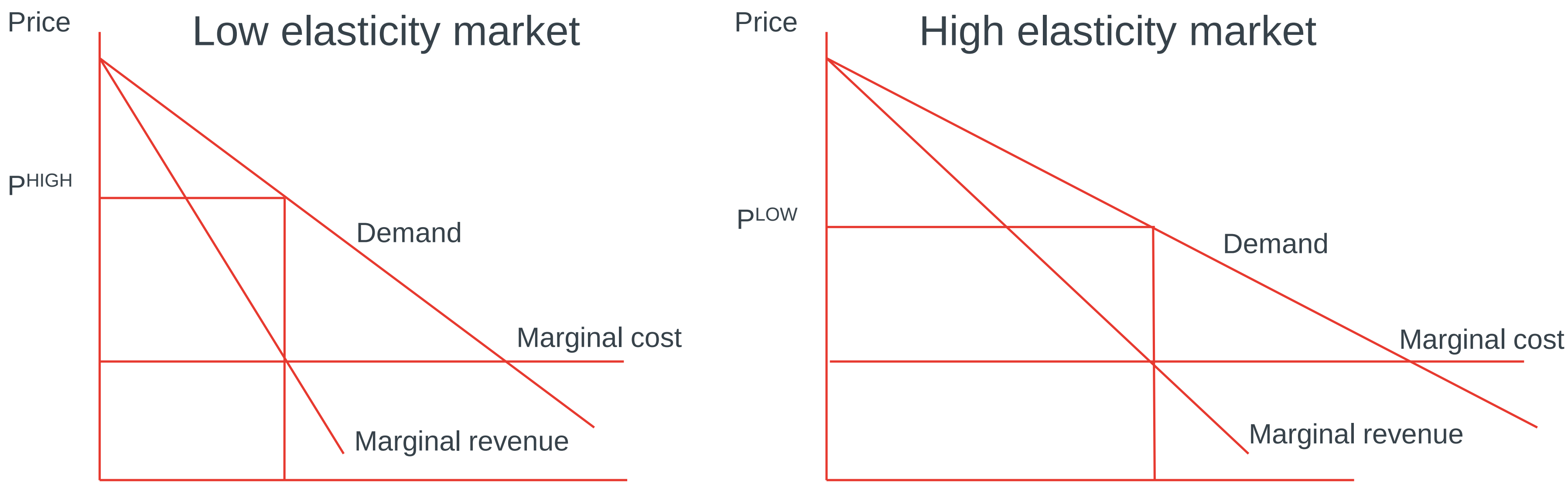
15 June 2018

Geo-blocking regulation 28 Feb 2018 aims to prevent discrimination

> *Removing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment could foster growth and increase consumer choice throughout the internal market.* (Geoblocking regulation, paragraph 2)

General economics of price discrimination…

Assume: firms have some fixed costs, same marginal cost, two separate markets with different demand conditions and inability to arbitrage



Prices are higher in the low elasticity market

… discrimination is a common feature of competitive markets…

Examples:

- Discrimination across time (commuter vs. off-peak, airline yield management)
- Discrimination across customer groups (business vs. consumer, student discounts, etc.)
- Discrimination across usage patterns (volume discounts)

… economic theory suggests that price discrimination could be beneficial

In short term, some customers pay more, some pay less, and revenues for firms are higher

In long term, entry encouraged compared to one price for all – as more likely to recover fixed costs

Example – air fares and yield management

Southwest route map in 1990

Southwest route map in 2000

Geo-blocking regulation argues that price discrimination is not banned

Could still charge different prices in different countries

But extent to which this is possible depends on arbitrage possibilities which will vary – look at three examples in the “10 Key features”

Sale of products without delivery	Sale of electronically supplied services	Sale of services provided in a specific physical location

Sale of products cross border without delivery

e.g. a German website must charge same price to customers in Germany and customers in Belgium, but doesn't have to provide delivery

Impact on reducing geographic price discrimination depends on transport costs as a proportion of value - for many end consumer products, unlikely that price differences will be large enough to make it worthwhile to switch - but for some products, could be material (e.g. smartphones?)

Sale of electronically provided services

Bulgarian company buying hosting services for its website from a Spanish company – can't charge the Bulgarian company more than anyone else

More plausible that you might want to charge Bulgarian companies less not more (likely higher price elasticity given income differences) but this will be prohibited

Expect to see a single price prevailing – but perhaps leads to reduced access for low-income countries?

Sale of services provided in a particular physical location

Must charge same price

Set prices according to average demand elasticity

If no capacity constaints, would currently expect lower prices/mark-ups when selling to lower income country

So prices will go up for lower income countries and down for higher income countries

Upstream/brand implications

Brands can sell goods for resale at different prices in different countries

But if downstream websites can't price discriminate by geography, will be difficult for brands

Ability to discriminate will vary according to value of product relative to transport costs

Maybe provoke a move to product differentiation (e.g. different models in different countries)

Potential competitive response to "sale of product without delivery" situation

Firms entering as agent of the customer

- provide delivery services on their behalf
- take advantage of arbitrage opportunities

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